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UNCLAS SECTION 01 OF 02 TAIPEI 004647

SIPDIS

STATE PLEASE PASS AIT/W AND USTR

STATE FOR EAP/TC, EAP/EP

USTR FOR WINTER AND WINELAND

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/LMOGHTADER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

SENSITIVE

E.O. 12958: N/A

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SUBJECT: Taiwan Economy: Swamp of Negativism

Ref: a) Taipei 4461, b) Taipei 4331, c) Taipei 4187, d)
Taipei 3880

1. (SBU) Summary: As AIT/T has reported in recent cables (refs), public trust in Taiwan's ruling Democratic Progressive Party (DPP) has been seriously undermined by news of scandal, corruption, and mismanagement over the past several weeks. The erosion of trust in Taiwan institutions and of confidence in Taiwan's economic prospects has been accelerated by economic statistics that show Taiwan's economic performance lagging compared to its three main rivals (South Korea, Singapore, and Hong Kong). Polls indicate a widespread perception of economic gloom that discounts upbeat official statistics and bodes ill for the ruling DPP in upcoming elections. End summary.

No End to the Bad News

2. (SBU) For weeks now, local media have been dominated by news of scandals, corruption, and poor economic performance. Major ongoing corruption scandals include the alleged abuses in the Kaohsiung metro construction project that has tarred senior administration officials and DPP insiders including former Deputy Presidential Secretary General Chen Che-nan, and the "vultures" insider trading scandal has forced the resignation of Financial Supervisory Commission Examination Bureau DG Lee Chin-cheng and is rumored to extend to other high-ranking financial officials. The media has focused on scandals in the high-speed rail project and on the Taiwan ambassador to Senegal failure to foresee the end of diplomatic ties there. Media reports that rates of chronic unemployment, suicide, crime, and emigration are up, as are negative sentiments about Taiwan's future.

3. (SBU) Taiwan's United Daily News ran a series of four articles earlier in November reviewing Taiwan's economic performance over the past five years. The articles asserted that Taiwan's economic situation has greatly worsened, claiming that "sixty percent of Taiwan families live a life worse than five years ago" (without explaining the origin or detailed meaning of the statements).

4. (SBU) According to other recent media reports, the Taiwan economy has been left out of the generally favorable global economic performance this year. Taiwan's "misery index" (i.e., the inflation rate plus the unemployment rate) has reached its highest level in 24 years, over 7%. In the past five years, average annual wage increases have been below 2%. The 5% total increase in wages from 2000 to 2005 was completely offset by price increases. Unemployment, which had never exceeded 300,000 prior to 2000, now exceeds 400,000. Domestic investment in each of the past four years has been less than 20% of GDP, the lowest since 1960. Even though foreign portfolio investors have made net stock purchases of over NT\$300 billion so far this year, Taiwan's stock index has not risen. Over two million (about 10%) of Taiwan's most talented and wealthy elites have reportedly moved to China and are living and/or working there. The loss of these people has dampened overall private consumption on the island.

5. (SBU) This stream of negative news about the economy has created a widespread pessimism that even recent upbeat statistics from the Directorate General of Budget, Accounting, and Statistics (DGBAS) has been unable to dispel. According to DGBAS, in the third quarter Taiwan's GDP increased 4.38% from the same period a year earlier, better than the August forecast of a 4.32 increase. DGBAS also raised its forecast for all of 2005 to 3.8% from its August prediction of 3.65% and is now forecasting that

Taiwan's GDP will reach above 4% in 2006.

16. (SBU) In contrast with the DGBAS upbeat assessment, an opinion poll conducted by the Chung-kuo Shih-pao on November 15 and 17 indicated only 12% of respondents believe that Taiwan's economy will be better in 2006 than today, 15% believe things will remain essentially the same, and 31% believe the economy will be worse (42% expressed no opinion.)

17. (SBU) Taiwan's economic performance has, in fact, been worse in recent years than that of its three closest economic rivals, South Korea, Singapore, and Hong Kong, as illustrated in the table below. Behind these statistics there are economic factors such as the varying impact of the 1997 Asian financial crisis and the 2001 tech declines on these economies, as well as non-economic factors such as the impact of SARS and cross-Strait tensions around the time of Taiwan's 2004 presidential election. However, this lagging performance will certainly feed the growing sense among many Taiwan people that the current government has failed to deliver on its economics promises and will bolster the chances of the opposition parties in the upcoming "three-in-one" December elections.

Unit: percentage points

Year	Taiwan	South Korea	Singapore	Hong Kong
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1997	6.37	4.7	8.6	5.1
1998	4.33	-6.9	-0.8	-5.5
1999	5.32	9.5	6.8	4.0
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3-year Ave	5.34	2.43	4.86	1.2
2000	5.78	8.5	9.6	10.0
2001	-2.22	3.8	-2.0	0.6
2002	3.94	7.0	3.2	1.8
2003	3.33	3.1	1.4	3.1
2004	5.71	4.6	8.4	8.2
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5-year Ave	3.30	5.4	4.12	4.74
1-H 2005	2.78	3.0	3.95	6.5

Source: Directorate General of Budget, Accounting, and Statistics (DGBAS)

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